

Exit Preparation/Positioning For Entrepreneurial Specialty Online Retailer: Estimating Market Size And Growth Outlook Of A Niche Sporting Goods Market To Support The Sale Process

The Challenge: Our client, an entrepreneurial specialty online sporting goods retailer, was preparing for the sale of the company, potentially to a PE firm, and had retained a leading regional investment bank to assist it with this process. Demonstrating consistent growth since its launch in 2003, the company had become one of the top 3 online retailers in its market, with revenue doubling from 2010 to 2011. While the company exhibited strong financial performance, there was no information available on the size of this market niche or this niche's projected growth. Furthermore, there were many complexities in this market such as several indirect market growth drivers, market shift towards online channel, and changing consumer preference. To create a better picture of the market and competitive dynamics for potential investors, the investment bank recommended Gotham to the company for conducting a fact-based assessment of this niche market and providing robust market information for the offering material.

Specialty Sporting Goods Market Niche Assessment: Gotham conducted a 2-week study to establish product and user profiles, market drivers and trends, competitive landscape, and channel dynamics, as well as to build market size models. To do so under circumstances of no already available useful information, Gotham: (1) analyzed information from websites and SEC filings of 25+ manufacturers, distributors, and retailers of relevant product categories; (2) mined trade publications and user forums for the company's products and adjacent product categories; (3) conducted ~50 interviews with retail stores, industry associations, and industry experts; (4) conducted consumer surveys; (5) analyzed industry and government data, including reports from industry associations, web traffic data, census data, and import data; and (6) built 3 market sizing models (user demand perspective, competitor sales perspective, and supply perspective) to triangulate market size and growth rates.

Specialty Sporting Goods Niche A \$500MM Market With Rapid Growth Driven By Increasing Consumer Adoption

To estimate the market size and growth trends, Gotham took a bottom-up approach to build a market sizing model, as follows:

- **Profiled the products** utilized in this sport by mining the product catalogs of multiple retailers and conducting market research. Gotham segmented the hundreds of products used in the sport by power type, equipment type, and pricing. For each product segment, we then profiled the typical usage, pricing, user types, nature of differentiation, etc.
- **Defined and profiled user base** by researching the participants in this sport to determine their demographic breakdown (e.g., age, gender, household income, geography) and purchasing behaviors and participation rates across selected recreational activities. Gotham determined that the core participant (81% of total participants) in this sport is a Caucasian male aged 12-34. We segmented the user base into 6 profile types based on their participation level and developed detailed profiles, including number of participants, drivers for participating in the sport, equipment used, typical spend level, and user participation lifecycle.
- **Estimated the market size** for each of these user segments by leveraging the user type/product pricing matrix. Gotham then validated our market size estimates via several checks: by applying the model to historical data and comparing the results against an historical market size data point available from a manufacturer's SEC filings; by sizing the market from competitor perspective (using available financials, store count, and website traffic data); and by sizing the market using import data. We confirmed rapid growth of this market from \$80MM in 2004 to \$450-500MM in 2011 – a CAGR of 28%. We established that this growth was driven by increasing preference for the type of activity this sport represented (7-10% CAGR growth in relevant consumer activity that drive participation in this sport) and migration of participation from an alternate sport (this niche increasing its share from 16% in 2004 to 66% in 2011).
- **Projected 5-year growth rate at 14% CAGR** by building a growth model to translate U.S. Census Bureau demographic projections by age/gender into expected level of participation in this sport over the next 5 years., industry projections of participation in several related sports, and sales projections for several products that are good indicators of participation levels in this sport.

Product Usages By User Type And Pricing

Power Type	Equipment Type	Recreational Users - Value	Recreational Users - Price/Use	Sports Enthusiasts - Recreational	Sports Enthusiasts - Program
A	A1	\$45,000	\$10,000	\$75,000	\$200,000
	A2	\$10,000	\$2,000	\$20,000	\$50,000
	A3	\$15,000	\$3,000	\$30,000	\$80,000
	A4	\$20,000	\$4,000	\$40,000	\$100,000
B	B1	\$20,000	\$4,000	\$40,000	\$100,000
	B2	\$15,000	\$3,000	\$30,000	\$80,000
	B3	\$10,000	\$2,000	\$20,000	\$50,000
	B4	\$5,000	\$1,000	\$10,000	\$25,000
C	C1	\$5,000	\$1,000	\$10,000	\$25,000
	C2	\$3,000	\$600	\$6,000	\$15,000
	C3	\$2,000	\$400	\$4,000	\$10,000
	C4	\$1,000	\$200	\$2,000	\$5,000
D	D1	\$1,000	\$200	\$2,000	\$5,000
	D2	\$500	\$100	\$1,000	\$2,500
	D3	\$300	\$60	\$600	\$1,500
	D4	\$200	\$40	\$400	\$1,000

Legend: ■ Recreational user ■ Sports enthusiast ■ Program user ■ Most used in sport

Company Well Positioned To Capture The Market Share In Growing Online Channel

To understand channel dynamics, Gotham conducted primary research consisting of ~30 interviews with brick and mortar stores, verifying that this channel is offering less growth opportunity than the online channel. Online channel size and trends were established by constructing profiles of the top 10 retailers and top 5 distributors. We then augmented these profiles by leveraging retailer webpage traffic statistics and contrasted results with our research on consumer preferences to derive the historical growth of the online channel from 14% of market in 2004 to 52% in 2011. While the initial dominance of mass retail chains and sporting goods stores helped to develop the mainstream market, more sophisticated users began to switch to the online channel. Gotham's research and analysis clearly showed that the growth was due to the online retailers' ability to fulfill a wider spectrum of consumer needs via broader product selection, potential for customization, and enhanced accessories.

The Outcome: Our client and their investment bankers incorporated Gotham's market findings into the offering material and were able to demonstrate exciting growth prospects for the company. The sale process was successful and the company was sold to a private buyer at an attractive valuation.